National Film Board of Canada

2014–2015

Quarterly Financial Report for the quarter ended December 31, 2014

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1. Introduction

The National Film Board (NFB) was created by an act of Parliament in 1939. A federal cultural agency within the Canadian Heritage portfolio, the NFB exists to produce and distribute original, innovative audiovisual works that raise awareness of Canadian values and viewpoints and of the issues of interest to Canadians, across the country and around the world. The NFB serves Canadians by producing and making accessible, in all regions of the country and on all available platforms, rich and diverse cultural content that reflects Canada's rapidly shifting demographic profile and that would not be produced otherwise. A brief description of the agency's activities for the current year can be found in *Part II of the Main Estimates*.

This quarterly report has been prepared by management as required by Section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. The report should be read together with the *Main Estimates* as well as with *Canada's Economic Action Plan 2012* (*Budget 2012*).

2. Basis of Presentation

This quarterly report has been prepared by management using expenditure accounting. The accompanying Statement of Authorities includes the agency's spending authorities granted by Parliament and those used by the agency consistent with the Main Estimates and Supplementary Estimates for the 2014–2015 fiscal year. This quarterly report has been prepared using a special-purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through the *Appropriation Act* or through legislation in the form of statutory spending authority for specific purposes.

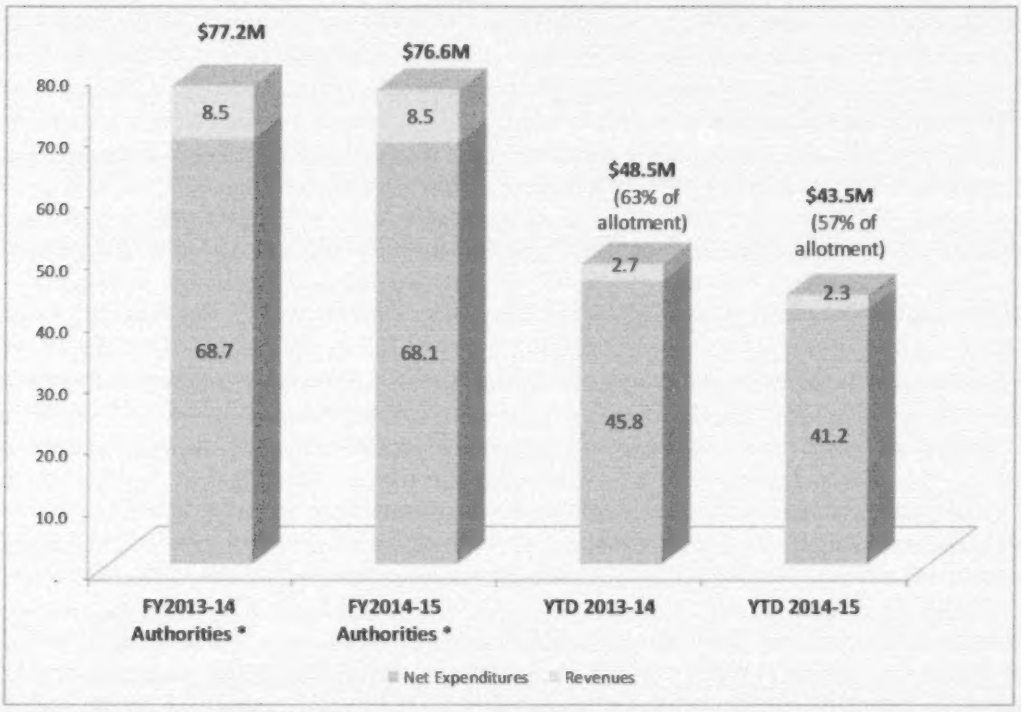
In 2014–2015, the changes to departmental authorities were implemented through the Annual Reference Level Update, as approved by the Treasury Board and reflected in the 2014–2015 *Main Estimates* tabled in Parliament.

The NFB uses the full accrual method of accounting to prepare its annual financial statements in accordance with Treasury Board accounting principles, which are consistent with generally accepted Canadian accounting principles for the public sector. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

3. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

This section highlights the principal factors that contributed to the variances between projected and actual expenditures and expected and earned revenues for the period ended December 31, 2014.



** Includes only Authorities available for use and granted by Parliament at quarter-end*

The preceding graph shows the total budgetary authorities granted to the NFB for fiscal 2014-15, with projected gross expenditures totalling $76.6 million. This is $0.6 million less than in the preceding fiscal year. This decrease is the net result of the savings measures announced in Budget 2012 (see section 6, Budget 2012 Implementation), with a reduction of $3.3 million and a carry-forward of $2.7 million from 2013-14.

Table 2 – Departmental Budgetary Expenditures by Standard Object, in the appendix to this report, shows expenditures and revenues for the third quarter of 2014-15. Here is an overview of the main items to be noted.

Variance in Revenues

Third quarter actual revenues were down by $0.3 million compared with the same period last year. This decrease was due primarily to the reduction in traditional revenues from the television market and from DVD sales. The audiovisual market is transitioning to digital consumption, which entails lower distribution revenues.

Variance in Expenditures

Gross expenditures for the third quarter of 2014-15 were slightly lower than the same quarter of the preceding fiscal year, at $14.9 million. The main variances came from expenditures on personnel, transportation and communications, professional and special services, rentals and acquisitions of machinery and equipment.

Personnel expenditures were less in this quarter than in the same quarter of the preceding year. In 2013-14, unionized employees were continuing to cash out their severance pay—for a total of $0.4 million—following the announcement that this pay would cease to accumulate.

Transportation and communications expenses increased by $0.2 million compared with the same quarter of the preceding year. The reason was the increase in Internet charges resulting from increased use of bandwidth to meet digital distribution requirements.

Expenses for professional and special services were $0.7 million lower, mainly because mobile application development and production activities were down slightly compared with the same quarter of the preceding year.

Rentals decreased by $0.1 million as a result of the end of leases related to activities targeted by the savings measures announced in Budget 2012.

The other types of expenditures by standard object followed historical trends.

4. Risks and Uncertainties

The external risks that the NFB faces remain unchanged. Foremost among them in its organizational risk profile is a decline in its revenues and in its spending authorities from Parliament. Year after year, the NFB and the other cultural agencies in the audiovisual sector have been underscoring the decline in broadcast revenues and the impact of the transition from the traditional to the digital distribution model.

That is why, in this environment, the NFB is working actively to develop new modes of financing and to take advantage of new distribution platforms to ensure its financial independence and secure the resources that it needs to fully accomplish its mandate. Starting in 2014–2015, the NFB wants to develop more effective advertising campaigns to market its content.

As a public agency, the NFB demonstrates a strong, sustained commitment to the education sector. The NFB not only will develop more content for education professionals and expand its base of CAMPUS subscribers in Canada, but will also strengthen these efforts in the U.S. and international markets.

Lastly, the NFB's efforts to relocate its Montreal headquarters finally bore fruit this quarter. On September 25, 2014, the Minister of Canadian Heritage announced that the NFB will be moving to a brand-new building to be constructed in Montreal's Quartier des Spectacles by fall 2017.

5. Significant Changes Related to Operations, Personnel and Programs

In addition to the implementation of the 2012 federal budget, which has resulted in a permanent 10% ($6.7 million) reduction in its Parliamentary spending authorities since April 1, 2014, the NFB will have to fund the salary revisions for 2014–15 and 2015–16 (totalling $1.7 million) out of its own operating budget.

6. Budget 2012 Implementation

This section provides an overview of the savings measures announced in *Budget 2012* that have been implemented to refocus government and programs, make it easier for Canadians and businesses to deal with their government and modernize and reduce the back office. The NFB has applied reductions and restraints to streamline and focus its operations so that it can continue to deliver quality as it fulfills its important mandate.

The original plan, which called for savings of $6.7 millions (10% of the NFB's budget) starting in fiscal 2014–2015, has been carried out, with the exception of information technology (IT) support through shared government services and the expected savings from the transition from selling physical products to selling virtual ones. To date, the NFB is still awaiting a decision

regarding the takeover of support for its corporate IT services by Shared Services Canada, while the conversion of educational institutions to the technological infrastructures needed to accommodate delivery of digital content is progressing well. For this reason, in 2014–2015, the store for physical products will be reduced so as to accommodate only those clients who still do not have access to the appropriate infrastructure.

The principal savings measures that have been taken are as follows:

- On September 1, 2012, closure of individual screening booths and screening rooms at the Toronto Mediatheque and Montreal CineRobotheque. Educational workshops will continue to be offered at headquarters in Montreal and on the usual premises in Toronto.
- On April 1, 2012, elimination of the "Festivals and Events" component of the Grants and Contributions Program.
- A slight reduction in the amounts allocated for the production of audiovisual works, representing 1% of the NFB's total budget.
- Consolidation of administrative services in regional offices.
- Implementation of new work processes in all NFB divisions, particularly in linguistic services management, rights management and general administration. The NFB will continue to rationalize its space usage and expects to save additional amounts.

Despite the delays in implementing two initiatives that have not been completed to date, the NFB will absorb the impact of the cost reductions through its ongoing program of internal efficiencies.

The NFB has received no additional funding to implement the above measures.

Approved by:

Claude Joli-Coeur
Government Film Commissioner

Montreal, Canada
February 28, 2015

Luisa Frate
Director General
Finance, Operations and Technology
(Chief Financial Officer)

Montreal, Canada
February 28, 2015

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Table 1 : Statement of Authorities ***(unaudited)***

	Fiscal Year 2014-2015			Fiscal Year 2013-2014		
(dollars)	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended December 31, 2014	Year-to-date used at the quarter-end	Total available for use for the year ending March 31, 2014 * **	Used during the quarter ended December 31, 2013 **	Year-to-date used at the quarter-end **
Vote 70 - Operating expenditures	68,121,924	14,007,771	41,227,750	68,752,596	14,580,848	45,770,050
Total Budgetary authorities	68,121,924	14,007,771	41,227,750	68,752,596	14,580,848	45,770,050
Total authorities	**68,121,924**	**14,007,771**	**41,227,750**	**68,752,596**	**14,580,848**	**45,770,050**

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

*** These figures have been restated to consider the revolving fund.*

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Table 2 : Departmental budgetary expenditures by Standard Object *(unaudited)*

	Fiscal Year 2014-2015			Fiscal Year 2013-2014		
(dollars)	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended December 31, 2014	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2014 *	Used during the quarter ended December 31, 2013 **	Year-to-date used at the quarter-end **
Expenditures:						
Personnel	40,975,057	9,429,919	28,092,442	43,324,346	9,691,898	31,027,268
Transportation and communications	3,537,804	847,551	1,770,448	3,364,163	676,719	1,884,424
Information	570,270	202,103	321,128	573,755	107,264	254,844
Professional and special services	15,049,244	2,111,093	5,566,127	14,310,606	2,857,577	6,381,091
Rentals	8,940,185	1,625,322	5,054,115	8,501,388	1,762,651	6,233,914
Repair and maintenance	1,488,505	53,190	1,086,786	1,415,447	85,720	969,922
Utilities, materials and supplies	1,244,367	180,486	477,661	1,183,292	134,719	484,301
Acquisition of machinery and equipment	3,759,014	322,009	718,173	3,574,516	225,410	602,265
Transfer payments	89,583	1,375	40,750	82,359	10,500	87,000
Other subsidies and payments	920,342	103,775	392,494	875,170	196,485	539,821
Total gross budgetary expenditures	**76,574,370**	**14,876,823**	**43,520,124**	**77,205,042**	**15,748,943**	**48,464,850**
Less Revenues netted against expenditures: Revenues credited to the vote	8,452,446	869,052	2,292,374	8,452,446	1,168,095	2,694,800
Total Revenues netted against expenditures	**8,452,446**	**869,052**	**2,292,374**	**8,452,446**	**1,168,095**	**2,694,800**
Total net budgetary expenditures	**68,121,924**	**14,007,771**	**41,227,750**	**68,752,596**	**14,580,848**	**45,770,050**

** These figures have been restated to consider the revolving fund.*